



COUNTY OF PLACER

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To the Board of Supervisors and Citizens of Placer County:

The comprehensive annual financial report (CAFR) of the County of Placer, California (County) for the fiscal year ended June 30, 2002, is hereby submitted in accordance with Section 25253 of the Government Code of the State of California. This statute requires that the County annually issue a report on its financial positions and activity, and that an independent firm of certified public accountants audit this report.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with generally accepted accounting principles (GAAP). Because the costs of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the information contained herein is complete and reliable in all material respects.

The County's financial statements have been audited by Macias, Gini & Company LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2002 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County of Placer's financial statements for the year ended June 30, 2002, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls

and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The New Financial Report

The County is implementing for the first time this year a new financial reporting model prescribed by Statement No. 34 of the Government Accounting Standards Board and designed to demonstrate fiscal, as well as operational, accountability. The new model improves on the traditional fund-based model by adding long-term and government-wide perspective on the County's finances. Within this new model, the CAFR is organized in three main sections:

- The Introductory Section is intended to help readers get acquainted with the County, its organizational structure, the scope of its services and the legal context.
- The Financial Section presents the basic financial statements, which include the government-wide statements, the fund statements, the notes to the financial statements, management's discussion and analysis, and the independent auditor's report.
- The Statistical Section presents multi-year statistics on demographic and other data of interest to the reader.

Profile of the Government

The County is located 80 miles northeast of San Francisco, and Auburn, the County seat, is located 120 miles southwest of Reno. County encompasses over 1,431 square miles (including 82.5 square miles of water) and is bounded by Nevada County to the north, the State of Nevada to the east, El Dorado and Sacramento counties to the south, and Sutter and Yuba counties to the west.

The County is recognized for employment opportunities. Statistics show that, since 1985, the unemployment rate in the region has been consistently below the statewide average. Wage and salary employment in the County increased by over 122 percent between 1983 and 2002. Employment growth was greatest in the services, manufacturing, and construction sectors. As the County becomes a major market, corporate attention increasingly focuses on the region. The availability of comparatively inexpensive land and low-cost commercial and industrial space makes the area a prime choice for industrial and office development. In addition, its transportation system is a major asset to the County. Few California inland metropolitan areas are situated in proximity to a major airport, deep water shipping port, transcontinental rail lines, and interstate freeway systems.

The County's rapid growth is expected to continue into the next century. The 2002 estimated population of 264,940 is a 51 percent increase over the county's population in 1990. The county's population is expected to be over 298,500 by 2005, an increase of 13 percent over the current population. The fastest growing cities will continue to be Rocklin and Roseville, both located in South County.

The County provides a wide range of services to its residents, including public protection through the Sheriff's Department, Fire Services, District Attorney's office, medical and health services, public assistance programs, sanitation services, the construction and maintenance of roads and infrastructure, environmental services, parks, libraries, and a variety of other general governmental services. Every resident of the County, directly or indirectly, benefits from these services. Most services performed by the County are provided for all residents, regardless of whether those residents live in cities or unincorporated areas. A major challenge to the County in future years will be the maintenance of these services to the extent feasible within the County's financial resources.

The financial reporting entity (County of Placer) includes all the funds of the primary government (the County of Placer as legally defined), as well as all of its component units. Blended component units, although legally separate entities, are considered to be part of the primary government's operations for financial reporting purposes, as required by GAAP. The following component units are blended: County Service Areas, Sewer Maintenance Districts, Newcastle and Penryn Lighting Districts, Redevelopment Agency of Placer County, and North Lake Tahoe Public Financing Authority. The Placer County Children and Families Commission is included in this report as a discretely presented component unit.

In accordance with the provisions of California Government Code Sections 29000 through 29143 inclusive, commonly known as the County Budget Act, the County prepares and adopts a budget for each fiscal year. Activities of the General Fund, Special Revenue Funds and Capital Projects Fund are included in the annual budget. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level except for fixed assets which are controlled at the line item level. The budgeted expenditures become law through the passage of an Appropriation Resolution. This Resolution constitutes the authorized spending threshold for the fiscal year, and cannot be exceeded except by subsequent amendment of the budget by the Board of Supervisors. In the governmental funds, an encumbrance system is used to ensure effective budgetary control and to enhance cash planning and control. Encumbrances outstanding at June 30 are reported as reservations of fund balance.

Factors Affecting Financial Condition

Placer County Economy: Placer County was the fastest growing county in California in 2002. The services and trades sectors account for over 50% of total employment. While the County continues to enjoy robust construction and real estate markets, it has not been immune to the national economic slowdown. Placer's economy has shown signs of distress with the closure of major plants and restructuring of local businesses. These conditions have dampened the tax-based revenues of the County government, specifically sales tax.

State Government: The County is a political subdivision of the State of California and as such, its government is subject to State subventions and regulations. Intergovernmental revenues account for half of all governmental funds' revenue. Therefore, the County's financial health is tied closely to the financial condition of the State government. Recently, the California economy was affected by an economic downturn, an energy crisis, a large concentration of high technology companies and a stock market downturn. As a result, the State of California is predicting a large budget deficit. Reductions of revenues as a result of a state deficit could have a significant impact on Placer County.

Long-term Financial Plans: The County has embarked on several projects with long-term financial impacts, including the following:

- Constructing a South County Criminal Justice Center, an Auburn Justice Center, and a Land Development Building, with estimated costs in excess of \$200,000,000.
- Continuing essential public health and welfare services threatened by State budget cuts.
- Continuing efforts to support Placer Legacy's Open Space and Agricultural Conservation Program
- Transitioning responsibility for trial court facilities from the County to the state
- Addressing the significant increases in Workers Compensation costs

Cash Management Policies and Procedures

Except for amounts held with trustees under bond indenture or other restrictive agreements, the County's cash and investments are invested by the County Treasurer. The Treasury Oversight Committee has regulatory oversight for all monies deposited in the Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the Board. The objectives of the policy are, in order of priority, safety of principal, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Risk Management

The County is self-insured for unemployment, general liability, worker's compensation, and certain employee health coverages. The County records estimated liabilities for such claims filed or expected to be filed for incidents which have occurred. The self-insured amounts for all types of losses except unemployment and dental and vision coverage are supplemented with insurance policies (refer to Note 14). County officials believe that assets of the Self Insurance Internal Service Fund, together with funds to be provided in the future, will be adequate to meet all of the claims related to these liabilities as they come due.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of Placer for its CAFR for the fiscal year ended June 30, 2001. This was the first year we received this award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting to GFOA to determine its eligibility for another certificate.

The preparation of the CAFR was made possible by the dedicated services of the entire staff of the Auditor-Controller's Office and by our contract auditor, Macias, Gini & Company LLP, who was instrumental in its preparation. I would like to express my appreciation to all members of the department who assisted and contributed to its preparation. In addition, I acknowledge the leadership and support provided by the Board of Supervisors and the County Executive which have made the preparation of this report possible.

Respectfully submitted,

Katherine J. Martinis, CPA
Auditor-Controller